

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

007

THE STATE DEPARTMENT OF DEVELOPMENTAL SERVICES'
ADMINISTRATION OF THE PROGRAM FOR THE
DEVELOPMENTALLY DISABLED NEEDS IMPROVEMENT

JUNE 1981



California Legislature

Joint Legislative Audit Committee

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007

The Honorable President pro Tempore of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report concerning the State Department of Developmental Services' administration of the program for the developmentally disabled.

Respectfully submitted,

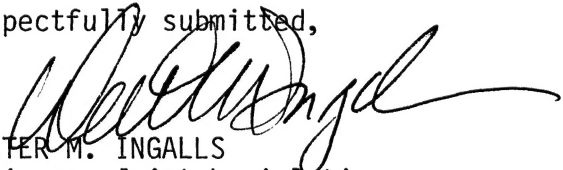

WALTER M. INGALLS
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SUMMARY

We reviewed the State Department of Developmental Services' administration of the regional center program, which provides a coordinated system for delivering a full range of services directed toward the developmentally disabled. The department contracts with private nonprofit community agencies to operate regional centers.

During our review, we found that the department needs to strengthen its monitoring of the fiscal and program operations of the regional centers. In relation to fiscal monitoring, the department has not conducted timely fiscal audits of the regional centers because of audit backlogs, limited audit staff, and additional assignments to audit staff. As a result of untimely fiscal audits, the same audit exceptions recur each year.

Another aspect of fiscal monitoring needing improvement relates to control of state-owned equipment. The department has not promptly issued decals to the regional centers for tagging state-owned equipment; further, the department has not ensured that all equipment valued at \$150

or more are properly identified on inventory lists. Because of this problem, the department cannot strictly account for some of its state-owned equipment. The total value of all state-owned equipment is approximately \$4.5 million.

Additionally, the department has not adequately monitored the program operations of the regional centers. The department has not conducted timely program reviews and has conducted only limited follow-up on reviews to ensure that regional centers correct identified problems. These weaknesses in program reviews have partially contributed to regional centers' noncompliance with mandates for assessing clients' needs. Ultimately, this lack of compliance means that clients may not be receiving services in accordance with legislative mandates.

In addition to these problems with the department's monitoring of regional centers, we also identified several areas where the department needs to improve its policies and procedures related to administering the regional center system. Specifically, these areas relate to processing audit appeals and exceptions; clarifying the definition of an active case; administering parental fee requirements which relate to fees charged to parents whose children receive out-of-home care; and

reviewing out-of-home placement of children by regional centers. Further, in some of these areas, the department is not complying with all legislative mandates.

As an example of these problem areas, the department's policies for processing audit appeals should be strengthened. At the time of our review there was a backlog of 89 audit appeals totaling approximately \$5.8 million. As a result of delays in processing appeals, the department may be losing the use of state funds which appellant centers freely use until their audit appeals have been resolved. Additionally, the department is not adequately ensuring that regional centers determine the financial liability of parents required to pay a reimbursement. Consequently, parental reimbursements are not equitably assessed. We estimated that, for fiscal year 1979-80, the department could have collected an additional \$514,000 if all regional centers had complied with the parental fee requirement. These and other policy issues are fully developed within the report.

Finally, in addition to the monitoring and management deficiencies, our review identified two other areas which need attention. These pertain to the department's authority to contractually control the regional centers and the legislative mandates requiring the regional centers to submit program budget plans.

INTRODUCTION

In response to a request of the Joint Legislative Audit Committee and under the authority vested in the Auditor General by Government Code Sections 10527 and 10528, we have reviewed the State Department of Developmental Services' implementation of the Lanterman Developmental Disabilities Services Act. This act directs the department to contract with private nonprofit community agencies to operate regional centers, through which services are delivered to the developmentally disabled. Accordingly, this review focused on the department's monitoring of the regional centers, its administration of the regional center program, and its contractual authority to control the regional centers.

Background

In 1978, the State Department of Developmental Services began administering the Lanterman Developmental Disabilities Services Act.* This act requires the department

* Prior to 1978, the Lanterman Developmental Disabilities Services Act was administered by the State Department of Health.

to provide specialized services directed toward the alleviation of a developmental disability or toward the social, personal, physical, or economic habilitation of an individual with such a disability.

The act defines eligibility to include persons with cerebral palsy, epilepsy, and certain other neurological handicapping conditions categorized as developmental disabilities. Specifically, there are three conditions which determine whether an individual is eligible to receive services: (1) the disability must have originated before the person was 18 years old, (2) the condition must be expected to continue indefinitely, and (3) the disability must constitute a substantial handicap. All residents of the State who meet the above criteria and who are believed to have developmental disabilities may receive diagnostic and counseling services.

The Lanterman Developmental Disabilities Services Act further requires the department, within the limitations of appropriated funds, to contract with private nonprofit community agencies to operate regional centers. The department contracts with 21 regional centers statewide to deliver coordinated services to the developmentally disabled. These regional centers are responsible for assessing and diagnosing clients' disabilities, managing clients' cases, planning and

evaluating programs for clients, and purchasing other appropriate services. The department is also responsible for establishing policies and procedures to implement legislative mandates, monitoring regional centers to ensure that they comply with legislative mandates and state contract provisions, and evaluating the overall effectiveness of the regional center program.

Currently, the department's authority to control the regional centers through its contracts seems unclear. In 1979, an Attorney General's opinion concluded that the department has no general authority to control regional centers' operations except in specifically authorized areas. This opinion has caused disagreement between the department and the regional centers over which control provisions can be included in the contract. Chapter III of this report features a discussion of this issue.

Funding

The State's annual contracts with the 21 regional centers prescribe how funds will be spent to serve developmentally disabled persons and specify the level of state funding for the centers. This funding, which is the primary source of revenue for regional centers, is provided by the State's General Fund. Primarily, the level of funding is based

on client caseload and services the department projects will be purchased for that fiscal year. The dollar amount of regional centers' contracts for fiscal year 1980-81 ranged from \$3 million to \$11 million. Funding levels and client caseload since fiscal year 1978-79 are presented below:

TABLE 1
GENERAL FUND EXPENDITURES AND CLIENT CASELOAD
FOR REGIONAL CENTERS

	Fiscal Year 1978-79 (<u>Actual</u>)	Fiscal Year 1979-80 (<u>Actual</u>)	Fiscal Year 1980-81 (<u>Budgeted</u>)
General Fund	\$124,266,000	\$145,693,000	\$183,905,000 ^a
Client Caseload (approximate)	60,000	62,000	64,000

^a This includes \$25.6 million allocated to the Department of Rehabilitation through an interagency agreement to provide habilitation services to regional center clients.

Scope and Methodology

In conducting our review, we interviewed department staff and reviewed records detailing the department's implementation of the regional center program and compliance with legislative mandates.* We examined department data concerning all 21 regional centers and visited 4 regional

* We did not review financial data pertaining to regional centers since that would duplicate studies conducted by the Department of Finance.

centers selected to include variations in population, location (rural/urban), program budgets, and administration. We interviewed regional center staff and service providers and collected data concerning the implementation of legislative mandates.

CHAPTER I

IMPROVEMENTS ARE NEEDED IN THE DEPARTMENT'S MONITORING OF REGIONAL CENTERS

The State Department of Developmental Services needs to strengthen its monitoring of the fiscal and program operations of the regional centers. For example, the department has not conducted timely fiscal audits of the regional centers because of audit backlogs, limited audit staff, and additional assignments to audit staff. As a result of untimely fiscal audits, similar audit exceptions recur each year. Another aspect of fiscal monitoring needing improvement relates to the control of state-owned equipment. The department has not promptly issued decals to regional centers for tagging state-owned equipment; further, the department has not ensured that all equipment valued at \$150 or more are properly identified on inventory lists. Because of this problem, the department cannot strictly account for some of its state-owned equipment. The value of all state-owned equipment is approximately \$4.5 million.

Additionally, the department has not adequately monitored the program operations of the regional centers. That is, the department has not conducted timely program reviews, and it has conducted only limited follow-up on these reviews to

ensure that the regional centers correct identified problems. These weaknesses in program reviews have partially contributed to regional centers' noncompliance in two areas. First, the centers have not met deadlines for completing intake interviews and assessments of clients, and they have not prepared and annually reviewed clients' individual program plans. Noncompliance in these areas may mean that clients are not receiving services in accordance with legislative mandates.

FISCAL MONITORING OF THE
REGIONAL CENTERS NEEDS IMPROVEMENT

The department needs to improve the monitoring of the regional centers' fiscal operations. To be specific, the department has not promptly conducted fiscal audits of the regional centers because of a two-year backlog of regional center audits and because of limitations in staffing. As a result of untimely fiscal audits, similar audit exceptions recur in subsequent years. Some of these exceptions relate to regional centers overexpending budgeted amounts by transferring funds between budget items without receiving the department's prior approval. Currently, the department is not fully enforcing the prior approval provisions of the contract.

Another area in which the department has not monitored the fiscal operations of regional centers pertains to state-owned equipment. The department has not issued decals to the regional centers for tagging equipment in a timely manner. Neither has the department ensured that all equipment valued at \$150 or more are properly identified. Again, these conditions have resulted because of insufficient staffing and inadequate equipment descriptions the regional centers have submitted. Consequently, the department cannot strictly account for some of its equipment.

Fiscal Audits Are Untimely

Both state law and the department's internal guidelines set standards for audits of regional centers. Section 4631 of the Welfare and Institutions Code requires the department's contract with the regional centers to include provisions for strict accounting and reporting of all revenue and expenditures. Further, Section 4780.5 of the code makes the department responsible for auditing the regional centers. The department's goal is to conduct a yearly audit of each regional center and not exceed one fiscal year without an audit; however, it has not adhered to this audit schedule. The department is presently auditing for fiscal year 1978-79 and expects to complete these audits by June 30, 1981. And, when we completed our review, the department had just begun audits for fiscal year 1979-80.

According to department staff, staffing and workload problems have caused delays in conducting these audits. When the department was established in July 1978, it assumed a two-year backlog of regional center audits. The backlog has remained at the same level because the audit section has been understaffed. In addition, the personnel responsible for auditing are required to perform other time-consuming projects.

One such project requires audit staff to compile statistics on rates charged by service providers of regional centers. It is estimated that approximately 15 to 20 percent of the available audit work hours is required to complete the rate studies. (Rate studies were performed in calendar years 1978 and 1980.)

The department is completing fiscal audits, with the assistance of new staff. In fiscal year 1980-81, the audit section received authorization for three additional positions. At the time of our review, 11 of 12 audit positions were filled. Yet fiscal audits are still backlogged primarily because the audit section must address other duties. Department administrators state that present staff could perform annual audits as well as other assigned duties if the current audit backlog were eliminated.

Because fiscal audits have been delayed, the same audit exceptions recur in subsequent years. For example, a fiscal audit report released in October 1980 revealed that one regional center had made overexpenditures in three budget line items totaling approximately \$373,000 in fiscal year 1977-78. The same regional center received audit exceptions for fiscal year 1978-79 of approximately \$118,000 for overexpenditures in the same budget line items.

Likewise, in reviewing audit reports for fiscal years 1977-78 and 1978-79, we identified four other regional centers with similar overexpenditures. Reports on each of the four centers included audit exceptions for the same line items in both years. These exceptions corresponded to overexpended amounts ranging from approximately \$1,000 to \$105,000. Had these exceptions been promptly identified, they may not have occurred in subsequent years. These exceptions are being appealed to the department.

The overexpenditures discussed above resulted because the regional centers have not adhered to the provision requiring them to obtain approval before transferring funds between budget items. The contract stipulates that the regional centers must receive the department's prior approval before transferring funds.

Currently, the department's enforcement of this provision is limited. During the 1979-80 contract period, the department did not reimburse the regional centers for expenditures, such as salaries and wages, which exceeded budget items. However, after some regional centers overexpended their budgeted amounts, the department gave some of them budget revisions reflecting the expenditures. The amount of

overexpenditures for this contract period varied from under \$1,000 to approximately \$27,000 for 8 of the 21 regional centers reviewed.

Untimely fiscal audits not only delay the identification of fiscal problems but also impede the recovery of funds which may be due to the State. By the time audit exceptions are identified and possibly appealed, several years may pass before the State could recover the money from the audit exceptions.

Equipment Inventory Needs Better Control

Another aspect of fiscal monitoring that warrants the department's attention concerns the control of state-owned equipment. All equipment purchased by the regional centers is the property of the State. According to the contract, each regional center is to report to the department all equipment valued at \$150 or more at the time it is purchased. In addition, the center must annually provide a complete inventory list for such equipment. Upon receipt of the report listing the purchased equipment, the department forwards to the regional center identification decals which are to be affixed to the equipment.

Our review of inventory records of the regional centers disclosed that the department has not sufficiently monitored the centers' inventory. For instance, the department has not promptly issued identification decals to regional centers that have submitted equipment lists. During the time of our review, department staff estimated that they were about six months behind in issuing decals. Regional center staff also confirmed that the department is slow in providing identification decals; for example, one center did not receive identification decals until a year after requesting them.

Because the department has not monitored regional centers' inventory, it cannot account for all state-owned equipment. As an example, the department has not reviewed the annual inventory lists to ensure that all equipment valued at \$150 or more is reported and identified. In reviewing inventory lists for the 21 regional centers, we found that most of the items on the lists of 9 regional centers were not identified by a state decal or identification number. For example, one regional center's inventory list contained 518 items with a monetary value; 399 of these required state decals or identification numbers. Of these 399 items, 189 (53 percent) had no reference to a state decal or identification number. The value of these items without identification was approximately \$129,400. The combined

inventory of the regional centers is estimated to total \$4.5 million, yet the department cannot strictly account for some of this equipment.

Department staff stated that they have insufficient staffing to adequately address the current backlog in identifying state-owned equipment. Also, staff have observed that the regional centers submit inadequate descriptions of equipment. To counteract this situation, the department, during our review, provided the regional centers with guidelines explaining how to identify and report equipment. These guidelines should assist the centers in describing their equipment.

During our study, the department began a complete physical review of each regional center's equipment inventory. As part of this review, which is scheduled to be completed on June 30, 1981, all state-owned equipment will be identified and appropriately tagged. This information will then be computerized.

PROGRAM MONITORING OF THE
REGIONAL CENTERS NEEDS IMPROVEMENT

Aside from fiscal monitoring problems, we also noted weaknesses in the department's program monitoring. The department is neither conducting program reviews in a timely manner nor adequately following up such reviews to ensure that the regional centers address problems. These monitoring weaknesses have resulted from staffing limitations and from the lack of departmental policy for distributing results of program reviews. Further, these weaknesses in program reviews have partially contributed to the regional centers' noncompliance with mandates for providing clients with intake and assessment services and with individual program plans. This lack of compliance means that clients may not be receiving needed services in accordance with legislative mandates.

Section 4631(b) of the Welfare and Institutions Code establishes a reporting system as part of the contract between the department and the regional centers:

The department's contract with a regional center shall require...strict accountability and reporting as to the effectiveness of the regional center in carrying out its program and fiscal responsibilities as established herein.

In addition, a provision in the contract reserves the right of the State to inspect and evaluate the work performed by the regional center.

The department in January 1979, implemented a System Evaluation Package (SEP), a comprehensive management review designed to evaluate regional centers' operations. The department's goal is to conduct an annual SEP review of each regional center.

Based on the SEP reviews conducted and the department's projected schedule, we estimated that most centers will be evaluated every two years. The department began the first cycle of SEP reviews in January 1979 and completed evaluation of the last regional center in August 1980. Although the department scheduled the second cycle to begin in January 1981, it did not start until March 1981. As a result of these untimely reviews, the department is hindered in evaluating the effectiveness of each regional center program and its compliance with legislative mandates and the contract. The department, therefore, cannot fully assess whether centers are providing adequate services to those in need.

Further compounding this situation is the department's limited follow-up to the initial SEP reviews. Generally, the department has not promptly or comprehensively followed up on the SEP reviews to ensure that the regional centers improve their operations. We found, for example, that the department has conducted a follow-up visit at only one of the four centers we reviewed. In another case, department staff contacted one regional center 16 months after the initial SEP review and found that some problems still had not been corrected. Regional center staff told us that the SEP reviews had some positive effect on their operations but that this effect was diminished by the department's infrequent follow-up visits.

The department's management review and monitoring program has been limited because of staffing limitations and because no departmental policy allows for distribution of review results. Department staff have stated that a lack of personnel has generally hindered follow-up activities at the regional centers. When our review began in July 1980, the department was undergoing a reorganization, which later minimized the staffing problem. But prior to this reorganization, the review was conducted by staff in addition to their normal duties.

As a result of the reorganization, the department established a monitoring branch and added four additional staff so that it could establish three review teams. Each team is responsible for reviewing seven regional center programs, department grant programs, and specialized vendor services. Department officials believe that this level of staffing will enable them to conduct annual management reviews as well as visit regional centers to verify that corrective actions have been taken.

Department staff stated that they have addressed serious problems found at the centers. For example, as a result of a follow-up, the department terminated the contract of one regional center where serious problems were identified.

We also found that the department has no written policy for disseminating the results of management reviews. Although the reviews could provide valuable information to other personnel in the department, the distribution of these reviews is limited. As an example, management findings which affect fiscal operations are not routinely shared with fiscal auditors. This information would be useful to fiscal auditors in performing a fiscal audit or in determining whether a special audit is needed. According to staff, an executive summary is provided to senior management, but there is no

procedure for further distribution in the department. Also, the management reviews are being analyzed to establish a standard for satisfactory regional center operations and to identify common problems. One report on client records has been submitted to the Legislature based on the management reviews. Because of limited distribution, the department is not benefiting from the reviews as it could. Another policy problem is that the department has no central unit for analyzing both fiscal audits and SEP reviews in order to comprehensively assess the regional centers.

The department has begun to take action in some of the areas related to our review. For example, it is revising the SEP instrument and writing procedures for applying the SEP instrument. Further, the department is training evaluators who conduct the reviews. The department is also developing procedures for following up on the SEP reviews.

Monitoring Weaknesses
Have Contributed to Centers'
Noncompliance

These problems with program reviews have partially contributed to regional centers' noncompliance with legislative mandates. Although our review indicated improvement in regional center compliance since the first cycle of SEP reviews, problems still exist. Specifically, some regional

centers are not meeting deadlines for providing clients with intake and assessment services nor are they adequately preparing and reviewing individual program plans for all clients.

Our review of four regional centers indicated that they are not always completing initial intake interviews and offering assessment services within mandated time periods. Sections 4642 and 4643 of the Welfare and Institutions Code state that initial intake interviews shall be performed within 15 working days following request for assistance. If assessment is needed, it shall be performed within 60 days following the intake procedures unless an extension is granted. Table 2 below summarizes the results of our review.

TABLE 2
REGIONAL CENTERS' NONCOMPLIANCE
WITH INITIAL INTAKE AND ASSESSMENT DEADLINES

<u>Regional Center</u>	<u>Percentage of Noncompliance with Initial Intake (15 Working Days)</u>	<u>Percentage of Noncompliance with Assessment (60 Days)</u>
A	N/A ^a	N/A ^a
B	14	56
C	28	6
D	17	14
Average	18	28

^a We could not establish compliance with deadlines for most of these cases because of inadequate file documentation.

As illustrated, in 18 percent of all cases reviewed, the client was not interviewed within 15 working days following the initial inquiry. Further, for Regional Center A, we could not determine when the interview was conducted because case files were inadequately documented. In 28 percent of the cases reviewed, the client's needs were not initially assessed within the 60 days required.

Problems with program reviews have also partially contributed to regional centers' noncompliance with legislative mandates regarding individual program plans (IPPs), which are tools used in developing time-limited objectives for improving the capabilities of the client. Specifically, the four regional centers visited are not preparing and annually reviewing plans for all clients.

The Welfare and Institutions Code establishes the standards for preparing and annually reviewing IPPs for all clients. Each plan is to be a statement of specific time-limited objectives for improving the capabilities of the client. However, our review indicated that some regional centers did not comply with these criteria. In 15 percent of the cases reviewed at the four centers, the client did not have

a current IPP.* Additionally, some IPPs were vague and unmeasurable, as illustrated by the following example:

Objective: "John Doe will continue to attend Production Center for the next year."

Plan: "Regional center to fund production center"

In 32 percent of the cases, the regional center did not review clients' IPPs annually. The following table indicates the variance in regional center noncompliance.

TABLE 3
REGIONAL CENTER NONCOMPLIANCE
WITH INDIVIDUAL PROGRAM PLAN REQUIREMENTS

<u>Regional Center</u>	<u>Percentage of Clients Without Current IPPs</u>	<u>Percentage of IPPs Not Reviewed Annually</u>
A	13	25
B	26	18
C	2	59
D	22	25
Average	15	32

* For the purposes of our review, a current IPP was defined as one prepared within the last 13 months.

As a result of noncompliance with these mandates, some regional centers have not promptly identified and provided services to clients and may not have defined clients' objectives and plans. Since there is no method to measure a client's progress or to determine whether adjustments are needed in individual programs, client needs may not be met.*

CONCLUSION

The Department of Developmental Services needs to improve its monitoring of the fiscal and program operations of the regional centers. With respect to fiscal monitoring, the department has not conducted timely fiscal audits of the regional centers and, as a result, similar audit exceptions recur each year. Neither has the department promptly issued decals to regional centers for tagging state-owned equipment nor ensured that all equipment valued at \$150 or more are properly identified on inventory lists. Thus, the department cannot strictly account for some of its state-owned equipment which totals approximately \$4.5 million.

* During our review, the department issued an Individual Program Plan Manual which includes instructions and examples for preparing and reviewing IPPs. Department staff stated that this manual should aid regional centers in preparing and reviewing IPPs.

Further, the department's monitoring of regional centers' program operations needs improvement. The department has not conducted timely program reviews or adequately followed up on reviews to ensure that regional centers correct identified problems. This weakness in program reviews has contributed to regional centers' noncompliance with mandates for assessing clients' needs. Thus, some clients may not be receiving services in accordance with legislative mandates.

RECOMMENDATION

To improve the fiscal monitoring of the regional centers, we recommend that the Department of Developmental Services:

- Give priority to completing fiscal audits of the regional centers to eliminate the backlog;
- Ensure that fiscal audits are performed annually, within the subsequent fiscal year;
- Enforce the requirement that regional centers receive prior approval from the department before transferring funds between budget items;

- Issue state identification decals in a timely manner;
- Review current inventory lists and identify all equipment for which no state decals have been issued. Once this equipment has been identified, issue state identification decals to ensure accountability of this equipment;
- Monitor inventory lists each year to ensure that all state-owned equipment is properly identified and accounted for.

In view of the problems identified regarding program monitoring, we recommend that the department conduct annual SEP reviews and follow-up reviews of each regional center to verify that the centers have taken corrective action in significant problem areas. The department should also require regional centers to develop plans for satisfying intake and assessment timelines and IPP mandates. In addition, the department should provide technical assistance and monitor these plans to ensure corrective action is being taken;

And to improve the overall monitoring of regional centers, we recommend that the department designate a central unit to conduct a complete analysis of the regional centers' fiscal and program evaluations. This information should then be disseminated to appropriate branches within the department for review and appropriate action.

CHAPTER II

DEPARTMENTAL POLICIES AND PROCEDURES NEED IMPROVEMENT

In several areas, the State Department of Developmental Services needs to improve its policies and procedures to enhance the quality of the regional center system. These areas, some of which involve departmental compliance with legislative mandates, relate to processing audit appeals and exceptions; defining an active case; administering parental fee requirements; and reviewing out-of-home placements of children.

The department's policies governing both the processing of appeals of audit exceptions and the recovery of appealed amounts need improvement. The department has not addressed an existing backlog of regional centers' audit appeals because of limited staffing and because no departmental policy outlines specific time constraints for processing an appeal. As a result of the delay in processing appeals, the department may be losing the use of state funds while appellant centers enjoy the free use of these funds until their appeals are resolved. Additionally, the current policy for collecting audit exception repayments from the regional centers may not be

beneficial to the State. By collecting these repayments from the regional centers, the department, in some instances, may be collecting for assets it already owns.

Another policy problem is that the department's definition of an active case is unclear. This definition does not specify the level of client activity that constitutes an active case. Thus, regional centers are using various criteria to define and report numbers of active cases. Since center staffing is primarily budgeted on the total number of active cases, these differing definitions could cause staffing inequities.

Further, policies governing parental fees charged to parents whose children receive 24-hour out-of-home care warrant attention. Specifically, the department is not (1) annually reviewing the schedule of parental fees, (2) promptly collecting parental fees, or (3) enforcing the requirement that regional centers determine the amount of reimbursement owed by parents. Because of these conditions, the department cannot assure that parental fee rates are equitably assessed and that it has maximized parental fee revenue returned to the State. Finally, the department is not annually examining out-of-home placements of children as mandated. Without this review, the department cannot assure that children are appropriately placed in facilities.

IMPROVED POLICY NEEDED FOR
AUDIT APPEALS AND EXCEPTIONS

Department policies regarding both the processing of appeals of audit exceptions and the recovery of appealed amounts from regional centers need improvement. Specifically, the department has not addressed an existing backlog of regional centers' audit appeals because (1) the unit responsible for processing appeals is understaffed and (2) no policy limits the time for departmental processing of appeals. The resulting delay in processing appeals could cause the loss of the use of state funds and could grant the appellant the free use of these funds until the appeal has been resolved.

In addition, we noted that collecting reimbursements for certain audit exceptions may not always be beneficial to the State. For example, if, in some instances, the department collected audit exception payments for equipment the center purchased without departmental approval, it would be collecting for assets it already owns. It may be more beneficial to treat these audit exceptions as management exceptions and not require a financial reimbursement.

The Department Has Not Addressed
Backlogged Audit Appeals

Regional centers may object to audit exceptions found in fiscal audits of their operations. To address these objections, Section 4780.5 of the Welfare and Institutions Code requires the department to establish procedures for hearing regional centers' appeals. The procedures for processing these appeals are contained in Title 17, Section 50600 et seq. of the California Administrative Code. The audit appeal may have two levels--an administrative review and a formal hearing. The administrative review is presided over by an appeals review officer. At the conclusion of this first level of appeal, a letter of findings is issued to both parties. If the appellant does not accept the decision given in the letter of findings, it then may appeal to the director of the department for a formal hearing. Department staff stated that approximately 80 staff hours are required to conduct an administrative hearing; 100 staff hours are required for a formal hearing.

During our review, we found that the department has not addressed the existing backlog of appeals. Awaiting disposition by the department as of December 1980 were 89 audit appeals totaling approximately \$5.8 million.* These appeals

* Forty-nine of these audit appeals were transferred to the DDS from the Department of Benefit Payments.

correspond to audits conducted between fiscal years 1972-73 and 1979-80. According to department staff, between October 1979 and December 1980, the department conducted administrative hearings on 24 of the 89 audit appeals. However, in only 4 of these 24 cases did the appellant accept the decisions rendered and thus close out the appeals. Two appeals were resolved without letters of findings. The remaining 83 appeals still await action. Among these appeals, six regional centers requested formal hearings with the department. However, only one formal appeal hearing has been held.

This delay in processing appeals could result in the loss of the use of potential state funds, if the findings are favorable to the State. Further, the delay results in a free loan to the appellant who has the use of the funds pending a resolution of the appeal.

The department has not addressed the backlog of audit appeals primarily because of insufficient staffing and because no departmental policy limits the time for processing appeals. The department has only one appeals review officer assigned the responsibility of administering the audit appeals program. Additionally, although regional centers must appeal audit findings within 30 days, the department has no time constraints for acting on the appeal.

This lack of policy could further compound the backlog of appeals. If the department does not act promptly in processing appeals, the backlog may continue to grow, augmented by appeals resulting from audits in progress.

Recovery of Some Audit Exception Payments
May Not Be Beneficial to the State

As noted in the Introduction, the State's annual contracts with the regional centers prescribe how the centers will spend funds to serve developmentally disabled persons as well as stipulate the level of state funding to be directed to the regional centers. Since state funding is the primary source of revenue for the regional centers, any amounts inappropriately spent by the centers must be repaid to the State. Typically, fiscal audits of the centers disclose these overpayments.

The California Administrative Code outlines the methods for recovering from regional centers overpayments discovered by fiscal audits. The State may request a lump sum payment, may offset the amount owing against current payments due, or may enter into a repayment agreement with the regional center. Finally, the director of the department may adopt any other appropriate method of recovery.

Audits are conducted using a strict interpretation of the contracts and the Regional Center Operations Manual (RCOM). Most audits of regional centers identify funds due to the State. A review of 15 audits of regional centers for fiscal year 1977-78 disclosed audit exceptions in fourteen regional centers with amounts ranging from approximately \$9,000 to \$426,000. All these exceptions are being appealed.

In some situations, the collection of overpayments benefits the State. For instance, the State recovers unreported social security income funds and third party revenue since these can be used to offset certain client costs. We noted one case in which a regional center repaid approximately \$148,000 to the State in unreported social security income funds which were found during a fiscal audit. The State also collects for claims that exceed expenditures recorded by regional centers.

However, the collection of overpayments is not always beneficial in instances where regional centers purchased equipment or client services without prior authorization from the department. Assume, for example, that a regional center purchased \$10,000 worth of equipment without the department's prior approval and that an audit disclosed this violation. The regional center is now liable for the \$10,000. But, since the

regional center is almost entirely state funded, it can only repay the audit exception in state funds. Therefore, the regional center would have to use current year funding to pay for prior exceptions, a process that could adversely affect the delivery of services in the current year but that would not necessarily benefit the State. Moreover, since the State owns equipment purchased by a regional center with state funds, this process would cause the State to collect for equipment it already owns.

Department staff agreed that certain problems identified in fiscal audits should be treated as management exceptions and should not require a repayment. They said that to comply with the contract provisions such problems are noted as audit exceptions.

The State could incur additional costs in processing appeals involving audit exceptions which should be treated as management exceptions. Although we are unable to calculate the amount of these costs, we believe that they are substantial. A reduction in the number of audit exception appeals could decrease the State's costs for conducting hearings.

LACK OF A CLEAR DEFINITION OF ACTIVE
CASE MAY BE CAUSING DISPARITIES IN
REGIONAL CENTER STAFFING

Regional center staffing is primarily budgeted based on the total number of active cases served by a center. The department's definition of an active case is unclear since it does not stipulate the level of client activity required. As a result, regional centers have adopted various criteria in defining and reporting active cases. This inconsistent reporting of cases could result in inequitable staffing among centers.

The department budgets staffing for regional centers according to its "core staffing formula." Based on the active caseload within regional centers, this formula provides 16 positions for basic program operations and additional positions for client services. For example, regional centers are allocated one program coordinator for every 62 clients, one psychologist for every 1,000 clients, and one physician for every 2,000 clients. This basic formula also affects other staff positions. In fiscal year 1979-80, approximately 80 percent of the total budgeted staff positions for all the regional centers was based on the active caseload formula. The cost of staffing these positions totaled approximately \$22 million.

Section 4629 of the Welfare and Institutions Code requires the department to specify procedures which all regional centers should use to define active and inactive cases. But, at the time of our review, the department did not have a comprehensive definition of an active or an inactive case. That is, the department's definition did not stipulate both client eligibility guidelines and the level of client activity required.

The Regional Center Operations Manual, which was revised in July 1980, gives a definition that does not specify what level of client activity constitutes an active case. That definition reads as follows:

A case is reported as...active...when it has been determined to be eligible for regional center services as defined in California Administrative Code, Title 17, Section 54010.

According to this definition, all eligible clients are considered active under the current definition even though they may not be receiving services.

Prior to the July 1980 revision, the RCOM gave a definition of an active case that did specify the level of client activity: it defined a case as open when the regional center is providing a defined service on at least a quarterly basis.

However, the department omitted this definition and deferred developing a comprehensive definition pending approval of the case leveling system. This system is a staff budgeting mechanism which classifies cases based on the amount of time program coordinators spend with clients. The department was unable to implement this system for budgeting purposes because the Department of Finance did not approve it. Department staff stated that because no clear definition has been developed, they have informally directed regional center to define an action case by applying the previous definition in the RCOM or by using the case leveling system.

Since the department has not issued a comprehensive definition, staff at the regional centers visited have used various criteria to define an active case. For instance, staff at one regional center defined an active case as one in which the client or family is requesting and receiving services

provided by or through a regional center. Another regional center defined an active case as one in which only yearly contact is made to ensure that the client is receiving adequate services from some source.

Such inconsistent definitions can affect regional center staffing since active caseloads determine funding for staff. For example, if a regional center defined as active cases 190 clients who had not been receiving specific services but who had been contacted once a year, it would receive funding for at least an additional four staff positions.* Another regional center that chose not to define these 190 cases as active would not be funded for any additional positions.

The department is currently developing a comprehensive definition of an active case which will include the level of client activity. Once developed, it will be included in the Regional Center Operations Manual.

* These positions would include three program coordinators and one clerical position. Additional staff positions could be granted, depending upon how these clients affected the total client caseload.

POLICIES COVERING PARENTAL
FEES NEED IMPROVEMENT

Fees are charged to parents whose children under age 18 receive 24-hour out-of-home care. In our review, we found that the policies related to these fees need improvement. Specifically, the department is not annually reviewing the parental fee schedule which the regional centers use to determine the amount of parents' reimbursements. Unless the fee schedule is reviewed yearly, there is no assurance that parental fee rates reflect the current cost of raising a normal child at home. This schedule has not been reviewed because no unit within the department has been assigned responsibility for such a review. Also, the department has not promptly collected parental fees because collection procedures require clarification. Untimely collection of parental fees has prevented the State from maximizing revenue.

The State is further prohibited from maximizing revenue in that the department has not adequately enforced the requirement that regional centers determine the financial liability of parents whose children are receiving 24-hour out-of-home care. The department has not enforced this requirement to allow regional centers time to implement the parental fee collection system, which includes a mechanism for determining the amount of parental reimbursements. As a result

of this problem, regional centers are not assessing parental fees equitably. We found that if all regional centers had complied with the parental fee requirement for fiscal year 1979-80, the department could have collected an additional \$514,000 in mandatory parental fees.

The Department Has Not Annually Reviewed
the Schedule of Parental Fees as Required

Section 4784 of the Welfare and Institutions Code requires the Director of the State Department of Developmental Services to establish and annually review the parental fee schedule. This schedule is used by regional centers to determine the reimbursements due from parents of developmentally disabled persons receiving specific services. The parental fee schedule, established in 1972, is based on the cost of raising a normal child at home and includes such factors as a family's size, its disposable income, and the child's age and sex. The data for these variables was obtained from the 1960-61 Survey of Consumer Expenditures published by the U.S. Bureau of Labor Statistics.

Despite the state law requiring an annual review, the department has reviewed the parental fee schedule only once since January 1977 when the mandate became effective. In November 1978, the department revised the parental fee

schedule, waiving fees for any family whose income was less than \$8,000 per year. No documentation was available to support why this change was made. Other than this one modification, the present fee schedule is identical to one adopted in 1972.

We found that the parental fee schedule has not been reviewed because no unit within the department has been assigned this responsibility. Although the Patient Benefits and Accounts Branch is responsible for collecting parental fees, administrators in this unit stated that this review was not their responsibility.

In addition, Section 4785 of the Welfare and Institutions Code required the former Department of Health to conduct a study of the parental fee schedule and recommend changes to the Legislature by July 1, 1977. In February 1978, the department submitted its report, which recommended that no changes be made to the schedule. However, this recommendation seems to have been based on a proposed fee schedule that would have increased parental rates to correspond with current consumer expenditures. This proposed schedule was never implemented.

Although family income and the cost of raising a child has increased substantially since 1972, the parental fee rate has not been modified by the department to reflect this increase. Thus, the department cannot assure that parental fee rates reflect the current cost of raising a normal child at home.

The Department Has Not Promptly
Collected Parental Fees

Aside from establishing the parental fee schedule, the department is also responsible for billing and collecting parents' reimbursements for services purchased by the regional centers. But because the department has not promptly collected these reimbursements, the State is prevented from maximizing potential revenue.

After regional centers determine a parent's financial responsibility, center staff prepare documents and submit them to the department which then bills the parents. Collection and adjustment of parental fee accounts are coordinated with regional centers. When an account becomes delinquent--that is, when any portion of it becomes 60 days past due--the department contacts the parents by telephone or letter to determine the reason for the delinquency and to request payment. These

accounts may be referred to one of the department's field representatives for collection when any portion of an outstanding balance becomes 90 days past due.

In reviewing parental fee accounts for a three-month period, we found that 2,022 of the 5,768 bills (35 percent) included delinquent balances. The delinquent monthly balances represent approximately \$237,000 or 61 percent of the \$387,000 owed to the State each month. Further, approximately 27 percent of these monthly bills have balances over 90 days delinquent; these balances represent approximately 53 percent of the total dollars owed to the State each month.

We further analyzed these billings for seven regional centers to determine whether any current payments were being made against these accounts. We found that for at least three months, no payments had been submitted for 511 of the 844 accounts, which included monthly bills over 90 days delinquent. Moreover, for 39 percent of these 511 accounts, no payments had ever been made. For the other delinquent accounts, some payments had been made during the last three months.

A major cause of these delinquent accounts is that regional centers disagree that they have joint responsibility for collecting parental fees from clients. Center

administrators contend that their responsibilities are limited to providing information and that involvement in collecting fees would hinder their role as advocates for their clients. Therefore, little collection activity is performed at the regional center level. Also, the department has not established procedures to address delinquent accounts when a parent refuses to pay. As a result of these problems, the department has not maximized parental fee revenue.

The Department Has Not Enforced Parental Fee Requirements

The department has not adequately enforced the requirement that regional centers determine the financial liability of parents whose children under age 18 are receiving 24-hour out-of-home care. As a result, parental fees are not assessed in an equitable manner, nor is parental fee revenue being maximized.

The department is responsible for ensuring that the regional centers are fully complying with parental fee requirements. Section 50221, Title 17 of the State Administrative Code, specifies that the parents and the regional center shall jointly determine the parental reimbursement amount.

Although the department monitors regional centers to see that they comply with parental reimbursement requirements, it does not enforce this compliance. When department staff note problems, they verbally review them with regional center staff. The department does not supply written reports of violations, nor does it require regional centers to stipulate what action will be taken to correct violations of the requirements. The department has not taken any action against regional centers for not complying.

To facilitate the billing and collection of parental fees, the department established the Centers Uniform Billing System, which centralizes these activities statewide. Regional centers are to follow the billing system's policies and procedures manual in implementing the parental reimbursement program. We found that the department has not strictly enforced parental fee requirements because of the implementation of this billing system. Department staff stated that regional centers should be allowed sufficient time to adopt this system. However, it has been over two years since the system was established.

Because of the department's limited enforcement, some regional centers have not consistently determined parents' financial liability. Two of the four regional centers we

visited made only limited efforts in this area. For example, one of these centers had not determined the fee rate for 145 of 244 parents (59 percent) who may owe reimbursements to the State. In effect, the department was not collecting reimbursements from these parents.

Department data for the 21 regional centers indicates that compliance with this requirement varied widely. For all regional centers, the parental fee rate has not been established for approximately 36 percent of the appropriate cases. As a result, parental fees have not been assessed in an equitable manner, nor has revenue from parental fees been maximized. For fiscal year 1979-80, the department collected approximately \$914,000 in mandatory parental fees.* Yet we estimate that the department could have collected an additional \$514,000 if all regional centers had complied with the parental fee requirement.**

* Aside from mandatory fees, parents may also make voluntary contributions.

** This estimate is based on the assumption that the percentage of parents not paying will contribute at the same rate as those parents currently paying.

CHILDREN'S OUT-OF-HOME PLACEMENT IS
NOT BEING REVIEWED ANNUALLY AS MANDATED

The department is not annually reviewing children's out-of-home placement as legislatively mandated. Consequently, the department cannot assure that children are placed in out-of-home facilities only when necessary.

Section 4685 of the Welfare and Institutions Code requires the department to conduct an annual review, comparing the percentage of children in out-of-home placement with the client caseload at regional centers. The department is then to investigate any possible excessive out-of-home placements in a regional center.

The department has not complied with this mandate even though the Legislature intends that children with developmental disabilities should live with their families. Without this annual review, the department is unable to ensure that children able to live at home are disallowed out-of-home placement.

Department staff have stated that an annual review of children's placement was not a high priority area since other departmental reports have dealt with related issues. However, the reports referred to by the department have not specifically

addressed the legislative mandate but have dealt with other issues such as children's admission policies to institutions and community care facility nurseries.

Recently, the department began developing a standardized report which will provide data to address this legislative mandate. The first report is expected to be released in August 1981. Once it collects the information from the report, the department plans to determine whether there is excessive out-of-home placement of children.

CONCLUSION

Our review showed several areas in which the department needs to improve policies and procedures to enhance the overall quality of the regional center system. Specifically, the areas relate to audit appeals and exceptions, definition of an active case, parental reimbursements, and children's out-of-home placement.

The department's policies regarding both the processing of audit appeals and the recovery of appealed amounts need improvement. The department has not addressed a backlog of audit appeals, and the

resulting delay in processing appeals could prevent the State from using state funds while allowing regional centers the free use of these funds. Also, the current policy of collecting audit exception repayments from the regional centers may not be beneficial to the State. Additionally, because the department has no comprehensive definition of an active case, regional centers have adopted inconsistent definitions that could result in disparities in budgeting staff.

Policies governing parental fees also need improvement. The department is not annually reviewing the parental fee schedule for children receiving 24-hour out-of-home care nor collecting parental fees in a timely manner. Neither has the department enforced the requirement that regional centers determine parents' financial responsibility.

Finally, the department is not conducting an annual review of children in out-of-home placement as legislatively mandated. Thus, there is no assurance that children are placed in out-of-home facilities only when necessary.

RECOMMENDATION

In view of the problems identified regarding audit appeals and exception policies, we recommend that the Department of Developmental Services:

- Consider other department personnel who could be temporarily assigned as hearing officers to assist in eliminating the audit appeal backlog;
- Develop and implement a schedule to conduct hearings on existing audit appeals;
- Amend Title 17 of the California Administrative Code to require the department to respond to appellant requests for administrative or formal hearings within specific time constraints;
- Collect reimbursements for audit exceptions only when beneficial to the State.

In addition, the department should allow management exceptions when warranted during fiscal audits. In these instances, the department should consider adopting these measures:

- Issue management letters when findings show management deficiencies;

- Provide technical assistance where appropriate; and
- Include more stringent control provisions in contracts with regional centers that fail to correct deficiencies.

Further, to clarify the definition of an active case, we recommend that the department define active and inactive cases and issue such a definition prior to July 1, 1981. For budgeting purposes, we recommend that this definition be based upon the level of client activity.

To improve parental reimbursement policies, we recommend that the department:

- Review the parental fee schedule to ensure that it is consistent in relation to legislative criteria;
- Clarify the centers' uniform billing system policy and operations manual to clearly define the role of the department and the regional centers in collecting parental fees;

- Establish a procedure for addressing delinquent accounts when no current payments are being made;
- Enforce regional centers' compliance with parental reimbursement requirements. The department should identify in writing all noncompliance issues and require a written response to address what corrective actions will be taken.

Finally, to ensure that there is not excessive out-of-home placement for children, we recommend that the department conduct its planned study to determine whether children are unnecessarily placed in out-of-home facilities. Once the study is completed, the department should recommend to the Legislature whether this area warrants further review.

CHAPTER III
OTHER PERTINENT INFORMATION

In addition to the monitoring and management deficiencies discussed in the prior chapters, our review disclosed the following two areas which deserve attention:

- The department may be hindered in administering the regional center program because its authority to control the regional centers through its contract seems unclear.
- The legislative requirement that the regional centers submit program budget plans to the department may need revision since the department has developed other methods of collecting some of this information.

THE DEPARTMENT'S AUTHORITY TO CONTRACTUALLY
CONTROL REGIONAL CENTERS IS UNCLEAR

The Welfare and Institutions Code authorizes the department to contract with the regional centers to provide services to the developmentally disabled. Although the code specifies that the department's contract shall require a strict accountability of all revenue and expenditures, it does not specify the extent to which the department can control the

operations of the regional centers. For example, it is questionable whether the department can contractually control purchases or subcontracts over a specified dollar amount. As a result, the department and regional centers are in disagreement over which control provisions can be included in the contract.

In 1979, the department requested an Attorney General's opinion to clarify its legislative authority to control certain aspects of regional centers' operations. The Attorney General's opinion concluded that the department has no general authority to control the operations of the regional centers except in limited, specifically authorized areas. It further noted that, with some exceptions, the department's responsibilities are limited to evaluating the results of the programs and do not include controlling the manner in which the centers provide services to clients.

The department's staff disagreed with certain conclusions of this opinion. As a result, the department is still requiring regional centers to perform contractual duties which, according to the Attorney General, the department has no authority to require. The 1980-81 contract, for example, includes a requirement that regional centers must obtain the written authorization of the department before reimbursing

vendors for (1) any purchase order or subcontract exceeding \$5,000 or (2) any consultant contract exceeding a rate of \$200 per day.

The department's lack of clear authority to control the operations of the regional centers may be hindering its administration of the regional center program. The department negotiates with the centers all contract provisions which the department believes are necessary accountability devices.

In June 1979, two regional centers filed a lawsuit against the department, requesting the court to interpret the Welfare and Institutions Code regarding the department's contractual authority to control regional centers' operations. However, the regional centers have not yet taken action on this issue and the lawsuit remains open.

The Legislature may wish to review and clarify the department's authority to contractually control regional centers by reviewing questions such as the following:

- Should the department require regional centers to purchase services only from vendors that it has approved?

- Should the department provide prior written authorization for the reimbursement of any purchase order, subcontract, or consultant contract equal to or exceeding a specific dollar amount?

Also, the department should identify for the Legislature any other areas needing clarification.

MANDATE FOR SUBMITTING PROGRAM
BUDGET PLANS MAY NEED REVIEW

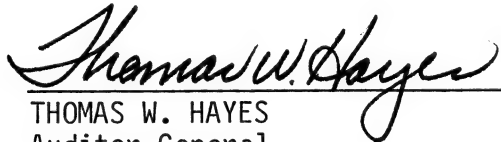
The Welfare and Institutions Code requires each regional center to submit a program budget plan to the department and to the State Council on Developmental Disabilities. But the department has not required the regional centers to submit complete budget plans as specified by the legislation because it has developed alternative methods of collecting some of this data. Consequently, the specific mandate for budget plans may no longer be necessary.

Section 4776 of the Welfare and Institutions Code requires each regional center to submit to the department and the State Council on Developmental Disabilities a program budget plan for the next budget year on or before August 1 of each year. These budget plans are to detail the services to be provided by the regional center and to estimate the costs of each service.

Currently, the department does not require the regional centers to submit budget plans as specified in the Welfare and Institutions Code. According to department staff, the budget plans previously submitted were not useful because some of the information was unreliable or unrealistic. Because of this, the department has developed methods for collecting budget data, including extracting needed data from the Developmental Disabilities Management Reporting System and the Client Developmental Evaluation Report. As a result of alternative budget procedures, the specific legislative mandate for program budget plans may no longer be necessary.

The department and the State Council on Developmental Disabilities should jointly review Section 4776 of the Welfare and Institutions Code to determine what budget data is needed. Based on this determination, these two entities should recommend modifications in the law to the Legislature.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: June 15, 1981

Staff: Eugene T. Potter, Audit Manager
Dennis L. Sequeira
Arthur C. Longmire
Patricia French

Memorandum

To : Thomas W. Hayes
Auditor General
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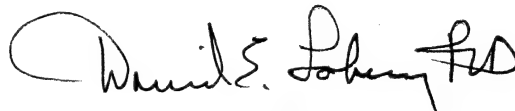
Date : June 9, 1981

Subject: Response to June, 1981
Report

From : Office of the Director
1600 Ninth Street, Second Floor NW
3-3131

In accordance with rules established by the Joint Legislative Audit Committee, I am forwarding a written response to the report entitled "The State Department of Developmental Services' Administration of the Program for the Developmentally Disabled Needs Improvement - June, 1981".

I appreciate the opportunity to respond to the concerns outlined in the report.

A handwritten signature in black ink, appearing to read "David E. Loberg". The signature is fluid and cursive, with a large initial "D" and a stylized "L".

David E. Loberg, Ph.D.
Director

Attachment

AUDITOR GENERAL REPORT TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

June 1981

DEPARTMENT OF DEVELOPMENTAL SERVICES RESPONSE
TO REPORT ON MONITORING OF REGIONAL CENTERS

A. G. Report:-Give priority to completing fiscal audits of the regional centers
p. 24 to eliminate the backlog;

-Ensure that fiscal audits are performed annually, within the
subsequent fiscal year.

DDS Response: The Department has made good progress toward eliminating the backlog of regional center audits by combining two fiscal years, reducing audit time by modifying the audit program, and managing to fill all authorized positions. Combined audits of two fiscal years is not a preferred practice, since it does not allow regional centers to make corrections between years audited; however, it has been effective in reducing backlog. The audit program has been modified by changing the emphasis in certain areas. The present emphasis is on regional center revenues and reviews of providers (vendors).

The status of regional center audits as of this time is as follows:

	<u>In Progress or Completed</u>	<u>Not Started</u>
1978-79	16	5
1979-80	6	15

The Audit Section anticipates the completion of all 1978-79 and 1979-80 audits by December 31, 1981. This assumes that audit positions will be continuously filled and that no major projects will be undertaken.

A. G. Report: Enforce the requirement that regional centers receive prior
p. 24 approval from the department before transferring funds between
budget items.

DDS Response: The intent of those provisions of the contract that require prior approval for transfer of funds between categories of the budget is to have some assurance that regional centers are not using Purchase of Service funds for Operations support. The provisions of the contract and the budget formats in the past created operational problems that made it difficult for the centers to obtain timely approvals and for the Department to enforce those provisions. Prior to 1980-81 FY, regional centers' contracts were set up on a program budget format. This format has since been revised to a line-item budget which makes it easier for the centers and the Department to anticipate the expenditure patterns within the budget categories and sub-categories. This makes it easier to obtain the necessary prior approvals of budget revisions. The 1981-82 FY contract is a continued improvement on the system by allowing the centers a 5% leeway in transferring funds between sub-categories. The centers must still obtain prior approval for transfers between categories but the process has been simplified. By changing the budget format and obtaining appropriate language in the Budget Act itself, the Department is in a much better position of enforcing and meeting the intent of those provisions of the contract.

A.G. Report: -Issue state identification decals in a timely manner;
p. 25

- Review current inventory lists and identify all equipment for which no state decals have been issued. Once this equipment has been identified, issue state identification decals to ensure accountability of this equipment;

- Monitor inventory lists each year to ensure that all state-owned equipment is properly identified and accounted for.

DDS Response: As indicated in the audit report, the Department has proceeded with a physical equipment inventory for all the Department's headquarters, field offices, and regional centers and their field offices. The physical inventory will be completed by June 30, 1981, and it is anticipated that all appropriate information will be entered into the computer immediately after that date. All accountable equipment will then be on a computerized inventory system.

It is our objective, with our present permanent staff responsible for this function, to maintain reasonable turnaround time in issuing departmental decals.

With the completion of the physical inventory, we are now able to communicate with coordinators within the field offices and regional centers to monitor the inventory list.

An annual physical audit by Department staff is not possible with current resources. However, the existence of a master list will allow for desk audit annually. Also, physical audits on a sample basis do occur as part of the SEP review and fiscal audits of the centers.

A. G. Report: In view of the problems identified regarding program monitoring,
p. 25 we recommend that the department conduct annual SEP reviews and follow-up reviews of each regional center to verify that the centers have taken corrective action in significant problem areas.

DDS Response: The Department agrees with the recommendations and has taken necessary action to accomplish this recommendation. As pointed out in the report, the Department developed a monitoring tool which has been applied to all regional centers, and as a result of these first reviews, the instrument has been revised and is being applied for the second time to all centers.

As pointed out in this report, the Department initiated the comprehensive SEP review in January, 1979. These reviews were the responsibility of a group of employees who had a myriad of other tasks relative to operation of the regional centers. During this period it was determined the reviews could not be conducted in a timely and objective manner in concert with the other duties of these employees. This experience proved that a unit clearly responsible for monitoring was necessary. As a result, the Community Services Division has been reorganized to designate a separate branch responsible for monitoring and to allow these reviews to be conducted on an annual basis in the most objective manner possible. In concert with this reorganization, the operational procedures have been developed for conducting these reviews and for providing the necessary follow-up, including a mandated plan of correction by the regional centers, monitored by departmental staff.

In summary, the monitoring process has been a developmental process which the Department feels has reached a stage of maturity, as recommended in this report.

A.G. Report: -The Department should also require regional centers to develop plans for satisfying intake and assessment timelines and IPP mandates.
p. 25

DDS Response: As a part of the SEP review, the Department does assess the regional centers' compliance with the intake and assessment requirements and the IPP requirements. As a result of the findings of the first application of the SEP in 1980, the Department issued a directive to the regional centers to assist them in complying with the law by requesting, when necessary, 30-day extensions to the assessment process. These directives require the centers to specify the reason for the requested extension. Department staff reviews each request and, if it appears that a pattern of late assessments is developing in a center, then immediate follow-up action is taken. This follow-up action includes technical assistance, as necessary, to aid the center in correcting any operational problems that may be interfering with timely completion of assessments.

Also, as a result of the first SEP reviews, the Department identified deficiencies in the regional centers' compliance with the IPP process. As a result, the Department, in conjunction with the regional centers, revised the IPP guidelines and provided training to individual centers as requested. Further, the SEP review process requires the regional center to prepare a formal plan of correction on cited deficiencies. If deficient in intake and assessment, the actions to correct the problem would be required in such a plan. The Community Program Specialist in Community Operations Branch assigned as liaison to specific centers is responsible for follow-up on these plans.

The Department has recently completed the second application of the SEP to some centers and is in the process of completing the review process on several other centers. The results of the review on the centers completed show improvement in their operation since the first reviews.

A.G. Report: -And to improve the overall monitoring of regional centers, we
p. 26 recommend that the department designate a central unit to conduct a complete analysis of the regional centers' fiscal and program evaluations. This information should then be disseminated to appropriate branches within the department for review and appropriate action.

DDS Response: The Department has taken the necessary steps to assure interaction in the sharing of information between the divisions within the Department responsible for the fiscal and program evaluations of regional centers. First, the appropriate staff of the Community Services and Administration Division are jointly meeting with the centers at the time of both the fiscal audit and SEP exit interviews. Second, the Community Operations Branch is being given the responsibility for assuring that data from all types of reviews on centers is centralized and is reviewed by CPS for follow-up action. Finally, executive summaries of the SEP reviews and fiscal audits will be circulated to appropriate branches within the Department. After the regional centers respond to reviews (plan of correction or final level of appeal), the documents are automatically sent to the appropriate Area Board on Developmental Disabilities for follow up, as outlined in the law.

A.G. Report: Lack of a clear definition of active case may be causing
p. 35 disparities in regional center staff.

DDS Response: The Department has reissued a comprehensive definition of an active case. This definition has been renegotiated with the Association of Regional Centers Agencies and they have agreed to add this definition in the RCOM by July 1, 1981.

The Department believes that the staffing between centers has been equitable as a result of the process used by the Department in determining the number of active cases at each regional center. The Department utilizes the SEP reviews, the Client Development Evaluation reports, the Developmental Disabilities Management Review System, and the Purchase of Service claims data to determine the number of active cases. As a result of this process, the regional centers have taken steps to inactivate large numbers of cases that were previously carried as active but for which no services were being provided.

A.G. Report: - Collect reimbursements for audit exceptions only when beneficial
p.50 to the state;

- Consider other department personnel who could be temporarily assigned as hearing officers to assist in eliminating the audit appeal backlog;
- Develop and implement a schedule to conduct hearings on existing audit appeals;
- Amend Title 17 of the California Administrative Code to require the department to respond to appellant requests for administrative or formal hearings within specific time constraints.

DDS Response: The Department agrees with this concept and will develop and implement a policy which will allow management exceptions rather than fiscal adjustments in certain situations. The implementation of such a policy may also assist the Department in reducing the amount of the hours required for each audit.

The Department has reviewed the option of temporary staffing to reduce the backlog of appeals. The costs appear to be prohibitive unless the Department is able to shift personnel from within DDS on a temporary basis and this option is not feasible because of the level of person needed to function as hearing officers.

The Department is developing a preliminary schedule to conduct hearings at the first level on existing audit appeals. Implementation of such a schedule will be contingent upon the Department's ability to provide necessary staffing for the first level hearings. The adoption of a "management exception" approach to the "audit exceptions" when implemented will relieve materially the workload of audit appeals and an assessment of the problem is expected to lead to an appropriate remedy.

The Department is in the process of reviewing its regulations in the context of the management exception procedure and will incorporate time limits on the Department on this basis.

A.G. Report: -Issue management letters when findings show management deficiencies;
p. 50
p. 51 -Provide technical assistance where appropriate; and

-Include more stringent control provisions in contracts with regional centers that fail to correct deficiencies.

DDS Response: The Department concurs with the first suggestion. In conjunction with the determination of whether or not to pursue reimbursement, discussed previously, the Department will issue management letters on those items where collection will not be pursued.

The Department has and does provide technical assistance upon request. As a matter of policy in working with private agencies, the Department has found that technical assistance not perceived as needed is counterproductive.

Because of the demands of uniformity and equity in the State programs, the Department uses a uniform contract with all 21 centers. The contract is a negotiated document with the Association of Regional Centers Agencies. The contract is becoming more specific (copy of 1981-82 standard contract attached). The specificity currently achieved provides many of the prior approvals and other controls addressed in other sections of this report.

The issue of failing to correct deficiencies is best addressed through the Systems Evaluation Package, which is the tool for monitoring for compliance. As outlined in the response dealing with monitoring, the review identifies deficiencies and requires a detailed plan of correction by the regional center. Should such plans not be accomplished, the Department has a sound basis for taking action with respect to renewing or maintaining a contract. However, we believe the plan of correction should be separate and the contract should be uniform for all centers.

A.G. Report: -Review the parental fee schedule to ensure that it is consistent
p. 51 in relation to legislative criteria.

DDS Response: The Department agrees and will review the Parental Fee Schedule to ensure that the schedule is consistent in relation to legislative criteria. The Joint Budget Conference Committee of the Legislature is considering this issue and will most likely include specific language in the Budget Bill. Efforts are underway to revise the Parental Fee Schedule for minors in out-of-home placement, and develop and adopt a schedule for nonresidential services.

A.G. Report: -Clarify the centers' uniform billing system policy and operations
p. 51 manual to clearly define the role of the department and the regional centers in collecting parental fees.

DDS Response: The Centers Uniform Billing System (CUBS) Policy and Operations Manual will be reviewed and amended to clearly define the role of the Department and the regional centers in collecting parental fees. Regional centers' role will be limited solely to determining the financial ability of parents of minor children to pay for purchased services or services provided in a state hospital. Billing and collection of fees will be the sole responsibility of the Department.

A.G. Report: -Establish a procedure for addressing delinquent accounts when no
p. 52 current payments are being made.

DDS Response: An expanded collection process, including closer monitoring and referral for legal action of delinquent accounts, has been established and incorporated into departmental regional center procedures.

A.G. Report: Enforce regional centers' compliance with parental reimbursement requirements. The department should identify in writing all noncompliance issues and require a written response to address what corrective actions will be taken.
p. 52

DDS Response: Noncompliance with parental reimbursement requirements will be monitored and documented by the Department. Because of the lack of clear provision in the Lanterman Law, the capability of the Department to improve this situation is somewhat limited. The Department's efforts to amend this legislation has not yet been successful.

A.G. Report: Finally, to ensure that there is not excessive out-of-home placement for children, we recommend the department conduct its planned study to determine whether children are unnecessarily placed in out-of-home facilities. Once the study is completed, the department should recommend to the Legislature whether this area warrants further review.
p. 52

DDS Response: The required study is underway and a final report will be available by October 1, 1981. The data collection methods are being established in such a way that annual review will be simplified. The Department's current policy is that actions required to maintain children in their natural family are first priority activities and expenditures.

A.G. Report: -Also, the department should identify for the Legislature any other
p. 56 areas needing clarification.

DDS Response: The Department has proposed legislative changes and received the approval of the Administration to pursue the following items:

1. That meetings of regional center governing boards be open to the public, with the usual exceptions.
2. That prior approval of the Department be required for expenditures of certain categories and of certain amounts.
3. That the contract allow Department controls over wages, salaries, per diem, and travel amounts.
4. That the vendorization standards set forth in regulations of the Department be met.

To date, the Department has not secured an author to introduce such legislation. Further, the Department continues to review the laws for areas which require clarification or more stringent controls.

A.G. Report: -The department and the State Council on Developmental Disabilities
p. 57 should jointly review Section 4776 of the Welfare and Institutions Code to determine what budget data is needed. Based on this determination, these two entities should recommend modifications in the law to the Legislature.

DDS Response: The Department agrees with the recommendation that the Department and the Developmental Disabilities Council jointly review Section 4776 of the W & I Code to determine if recommendations should be made for modification of this section of the law.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps